



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

City of Mukilteo

Snohomish County

For the period January 1, 2015 through December 31, 2015

Published December 15, 2016

Report No. 1018111





Washington State Auditor's Office

December 15, 2016

Mayor and City Council
City of Mukilteo
Mukilteo, Washington

Report on Financial Statements

Please find attached our report on the City of Mukilteo's financial statements.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

A handwritten signature in dark ink that reads "Troy X. Kelley". The signature is written in a cursive style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Mukilteo Snohomish County January 1, 2015 through December 31, 2015

2015-001 The City's internal controls over accounting and financial reporting continue to be inadequate to ensure financial statements are accurate and complete.

Background

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Controls must ensure that financial data is reliably authorized, processed and reported. In the prior three audits, we identified and communicated deficiencies in controls that adversely affected the City's ability to produce reliable financial statements.

In 2015, the City experienced turnover in key accounting positions including the finance director, accounting manager and staff accountant. The City filled the finance director and staff accountant positions in 2015 and accounting manager position in 2016; however, the turnover in personnel delayed the preparation of the 2015 financial statements because employees responsible for preparing and maintaining key information were new to their positions at the City.

Current staff is knowledgeable of accounting practices and have significantly improved the financial reporting of the City as well as overall internal controls. Because of these improvements, the City identified an error in a prior reporting period that could only be corrected by reporting a prior period adjustment.

Government Auditing Standards prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

The following weakness in internal controls represents a material weakness:

- The City expensed a public works project that was substantially complete in 2014 instead of capitalizing the project. In 2015, finance staff discovered the error and recorded a prior period adjustment to properly restate the prior year's financial statements. The reported prior period adjustment is material to the City's Surface Water Fund and Business Type-Activity opinion units.

We also identified deficiencies in internal controls over accounting and financial reporting that represent a significant deficiency in controls. The City did not have adequate internal controls to ensure City accounting records were reconciled to monthly bank statements timely. Additionally, internal controls did not allow the City to produce financial statements by the annual report filing deadline as prescribed by state law (RCW 43.09.230).

Cause of Condition

The City experienced turnover in key accounting personnel including its finance director, accounting manager, and staff accountant during the preparation period for fiscal year 2015 financial statements.

Additionally, prior to 2015, City's finance department relied on information provided by the Public Works Department to determine the extent, nature, and timing for recording capitalized projects, repair projects, and maintenance projects. Public Works Department staff were not familiar with Generally Accepted Accounting Principles and did not relate the difference between capitalizing and expensing to the accounting treatment.

Effect of Condition

Untimely and inaccurate financial reports limit access to financial information used by City officials, the public, state and federal agencies, and other interested parties. It also hinders the audit process and increases audit costs.

The following errors represent a material weakness:

- The City expensed the full amount of a public works project instead of breaking out the difference between capitalized costs, repairs, and maintenance costs. The City identified the error after the project was considered fully complete and properly recorded a 2014 prior period adjustment to restate beginning net position by \$323,110 in the Surface Water Fund and Business Type Activity opinion units.

Additionally, we identified the following issues due to a significant deficiency in internal controls:

- For the fourth consecutive year, the City missed the annual report filing deadline as prescribed by state law. Final financial statements were not ready for audit until nearly two months after the statutory deadline.
- The City did not perform any 2015 bank reconciliations until May 2016.

- The City reported two immaterial other prior period adjustments within its Governmental Funds. The *Budgeting, Accounting and Reporting System* manual limits prior period adjustments to corrections of material errors in prior period financial statements.

We identified additional, less significant errors in the financial statements and notes to the financial statements. Despite these internal control issues and noted errors, the City ultimately provided corrected financial statements upon which we are issuing an unmodified opinion.

Recommendation

We continue to recommend the City:

- Design internal controls that ensure project costs are reviewed timely and costs are properly recorded in the financial statements.
- File financial reports with the State Auditor's Office within one hundred fifty days after the close of each fiscal year to ensure compliance with RCW 43.09.230.
- Perform bank reconciliations timely to ensure proper monitoring of current cash positions and to safeguard public resources.
- Ensure that presentation of immaterial prior period adjustments are in compliance with the *Budgeting, Accounting and Reporting Systems* manual.

City's Response

The City acknowledges that it did not have sufficient internal controls in place to prepare financial statements and meet the reporting deadline prescribed by State law under RCW 43.09.230 due to changes in key accounting personnel.

The error in the prior year's financial statements was discovered by City staff after the close of 2014. City staff recorded a prior period adjustment to properly restate beginning net position as required by accounting standards. This prior period adjustment improved the quality and accuracy of the City's financial reporting.

The City has also improved processes to facilitate reconciliations and complete them in a timely manner. The current financial team has sufficient knowledge and background to prepare financial statements in accordance with standards set by Generally Accepted Accounting Principles, Governmental Accounting Standards

Board, Washington State Budget Accounting and Reporting System Manual and applicable Washington State RCW's.

The preparation of the financial statements is a complex process that requires detailed knowledge of both professional accounting standards as well as the City's transactions. Internal controls are improving as a direct result of the finance staff's commitment to ensure the quality and accuracy of the City's financial statements.

Auditor's Remarks

We appreciate the City's commitment to resolving the issues and improving current year processes. We will review the condition during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Deficiency in internal control. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly

designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

.A11 Indicators of material weaknesses in internal control include:

- Identification of fraud, whether or not material, on the part of senior management;
- Restatement of previously issued financial statements to reflect the correction of a material misstatement due to fraud or error;
- Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control; and
- Ineffective oversight of the entity's financial reporting and internal control by those charged with governance.

Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

RCW 43.09.200 – Local government accounting – Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

for the information of the people regarding any and all details of the financial administration of public affairs.

RCW 43.09.230 – Local Government Accounting – Accounting Reports – Comparative Statistics, states:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Mukilteo Snohomish County January 1, 2015 through December 31, 2015

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the City of Mukilteo. The State Auditor's Office has reviewed the status as presented by the City.

Audit Period: January 1, 2014 through December 31, 2014	Report Ref. No.: 1016938	Finding Ref. No.: 2014-001								
Finding Caption: The City's internal controls over accounting and financial reporting continue to be inadequate to ensure financial statements are accurate and complete.										
Background: <p>It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. In the prior two audits, we identified and communicated deficiencies in controls that adversely affected the City's ability to produce reliable financial statements. Our current audit found that internal control weaknesses continue to affect the City's ability to produce financial statements that are free from error.</p> <p>In 2015, the City experienced turnover in key accounting positions including the Finance Director, Accounting Manager and Staff Accountant. The City filled these positions in 2015; however, the turnover in personnel delayed the preparation of the 2014 financial statements because employees responsible for preparing and maintaining key information were not available. In addition, the new employees had to verify the accuracy of the 2014 financial data due to a computer server failure in 2013.</p> <p>Current staff is knowledgeable of accounting practices and have significantly improved the financial reporting of the City.</p> <p>The City submitted the majority of its 2014 financial statements on February 12, 2016, 258 days after the deadline prescribed by state law (RCW 43.09.230).</p>										
Status of Corrective Action: <table style="width: 100%;"> <tr> <td><input type="checkbox"/> Fully</td> <td><input checked="" type="checkbox"/> Partially</td> <td><input type="checkbox"/> Not</td> <td><input type="checkbox"/> Finding is considered no longer</td> </tr> <tr> <td>Corrected</td> <td>Corrected</td> <td>Corrected</td> <td>valid</td> </tr> </table>			<input type="checkbox"/> Fully	<input checked="" type="checkbox"/> Partially	<input type="checkbox"/> Not	<input type="checkbox"/> Finding is considered no longer	Corrected	Corrected	Corrected	valid
<input type="checkbox"/> Fully	<input checked="" type="checkbox"/> Partially	<input type="checkbox"/> Not	<input type="checkbox"/> Finding is considered no longer							
Corrected	Corrected	Corrected	valid							
Corrective Action Taken: <i>The City continues to improve its internal controls over accounting and financial reporting. The City hired a new Finance Director, Accounting Manager and Staff Accountant in 2015, all of whom are knowledgeable regarding GAAP, GASB and the BARS manual. The City has made significant improvements in its internal controls over the preparation and review of financial</i>										

statements and is continually improving our processes to ensure timely and accurate financial reporting.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Mukilteo
Snohomish County
January 1, 2015 through December 31, 2015**

Mayor and City Council
City of Mukilteo
Mukilteo, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mukilteo, Snohomish County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 28, 2016. As discussed in Note 15 to the financial statements, during the year ended December 31, 2015, the City implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

The City has restated its 2014 financial statements to correct a misstatement. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2015-001 that we consider to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

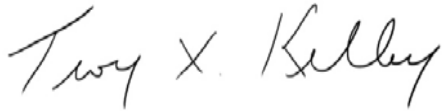
CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and

compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

November 28, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Mukilteo Snohomish County January 1, 2015 through December 31, 2015

Mayor and City Council
City of Mukilteo
Mukilteo, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mukilteo, Snohomish County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 18.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mukilteo, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 15 to the financial statements, in 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

As discussed in Note 15 to the financial statements, the 2014 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 28, infrastructure modified approach information on pages 65 through 66, budgetary comparison information on pages 67 through 69, information on postemployment benefits other than pensions on page 70, and pension plan information on pages 71 through 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary

information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

November 28, 2016

FINANCIAL SECTION

**City of Mukilteo
Snohomish County
January 1, 2015 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2015

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances – Governmental Funds to the Statement of Activities – 2015

Statement of Net Position – Proprietary Funds – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2015

Statement of Cash Flows – Proprietary Funds – 2015

Statement of Net Position – Fiduciary Funds – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Condition Assessment and Preservation of Infrastructure Eligible for Modified
Accounting Approach – 2015

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
– General Fund – 2015

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
– Recreation and Cultural Services Fund – 2015

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
– Emergency Medical Services Fund – 2015

Schedule of Funding Progress of Other Post-Employment Benefits – 2015

Schedule of Proportionate Share of the Net Pension Liability – 2015

Schedule of Employer Contributions – 2015

Management's Discussion and Analysis

Within this section of the City of Mukilteo, Washington's ("the City") annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City for the calendar year ended December 31, 2015. We discuss and analyze the City's financial performance within the context of the accompanying financial statements, note disclosures, and required supplemental information following this section.

Financial Highlights

- The City's assets and deferred outflows exceeded its liabilities and deferred inflows by \$187,684,541 (net position) for the calendar year reported.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets, of \$175,465,622 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net position of \$5,415,965 is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$6,802,954 represents the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported a total ending fund balance of \$10,816,937 this year. This compares to the prior year restated ending fund balance of \$9,860,499, showing an increase of \$956,438 or 9.70% during the current year.
- At the end of the current calendar year, unassigned fund balance for the General Fund was \$1,755,778, or 13.14% of total General Fund expenditures.
- Overall, the City continues to maintain a strong financial position, in spite of economic conditions and the deepening fiscal crises that local government such as ours will continue to face for the foreseeable future.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management Discussion and Analysis (MD&A) document introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-Wide Financial Statements

The City's annual financial report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and the elimination or reclassification of activities between funds.

The first of these government-wide statements is the Statement of Net Position. This is the government-wide statement of position presenting information that includes all of the City's assets and liabilities, deferred inflows and outflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating.

Evaluation of the overall health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure, in addition to the financial information provided in this report.

The second government-wide statement is the Statement of Activities. This statement reports how the City's net position changed during the current calendar year. All current year revenues and expenses are included regardless of when the City receives or pays cash.

An important purpose of the Statement of Activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Governmental activities included in this statement are general government, public safety, transportation, natural and economic environment, and culture and recreation. Business-type activities include storm water. Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The City has three kinds of funds: Governmental, Proprietary, and Fiduciary.

Governmental funds are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements such as police, fire, and administration. However, the focus is different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term calendar accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to assist in understanding the differences between these two perspectives.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee such as storm water. The City's proprietary funds are classified as enterprise funds and an internal service fund. These enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. The internal service fund is an equipment rental fund and facility maintenance fund.

Fiduciary fund type represents funds held in trust, this includes an agency fund.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

Required Supplementary Information

This section includes the budgetary schedules for the General Fund, the Recreation and Cultural Services Fund, and the Emergency Medical Services Fund. Also included is a Condition Assessment for infrastructure accounted for using the modified approach, a Schedule of Funding Progress of other post-employment benefits for LEOFF I retirees, and two schedules related to pension obligations; Schedule of Proportionate Share of Net Pension Liability and Schedule of Employer Contributions.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

The City's net position at calendar year-end was \$187,684,541. The following table provides a summary of the City's net position:

Summary of Net Position						
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets:						
Current assets	\$ 14,442,023	\$ 13,512,575	\$ 1,234,522	\$ 1,411,410	\$ 15,676,545	\$ 14,923,985
Noncurrent assets						
Pension	1,874,253	-	-	-	1,874,253	-
Other	679,215	680,104	-	-	679,215	680,104
Capital	180,905,952	182,980,385	4,447,579	4,109,881	185,353,531	187,090,266
Total assets	197,901,443	197,173,064	5,682,101	5,521,291	203,583,544	202,694,355
Deferred Outflows:						
Pension	738,938	-	43,667	-	782,605	-
Total deferred outflows	738,938	-	43,667	-	782,605	-
Liabilities:						
Current liabilities	1,030,783	1,144,247	93,981	146,042	1,124,764	1,290,289
Long-term liabilities	14,303,710	11,724,626	222,545	33,432	14,526,255	11,758,058
Total liabilities	15,334,493	12,868,873	316,526	179,474	15,651,019	13,048,347
Deferred Inflows						
Pension	985,243	-	45,346	-	1,030,589	-
Total deferred inflows	985,243	-	45,346	-	1,030,589	-
Net position:						
Net investment in capital assets	171,018,043	172,550,068	4,447,579	4,109,881	175,465,622	176,659,949
Restricted	5,415,965	4,660,586	-	-	5,415,965	4,660,586
Unrestricted	5,886,637	7,093,537	916,317	1,231,936	6,802,954	8,325,473
Total net position	\$182,320,645	\$184,304,191	\$ 5,363,896	\$ 5,341,817	\$187,684,541	\$189,646,008

The City continues to maintain a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 14.01 to 1 at December 31, 2015. The current ratio for the business-type activities at December 31, 2015 is 13.14. For the City overall, the current ratio is 13.94 to 1. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position decreased \$237,801 before restatement for governmental activities and decreased by \$127,555 for

business-type activities. The City's overall financial position decreased during calendar year 2015 by \$365,356, prior to restatement.

Note that 93.80% of the governmental activities' net position is tied up in capital, such as land, building, and infrastructure. The City uses these capital assets to provide services to its citizens. In business-type activities, the City reports 82.92% of its net position as its capital investment. Capital assets in the business-type activities provide storm water services, and generate revenues for this fund. Overall, 93.49% of the City's total net position is included in capital assets.

Change in Net Position

The following table provides a summary of the City's changes in net position for the years ended December 31, 2014 and 2015:

Summary of Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program:						
Charges for services	\$ 4,678,089	\$ 3,410,519	\$ 1,344,921	\$ 1,305,245	\$ 6,023,010	\$ 4,715,764
Operating grants and contributions	1,073,319	830,041	56,000	727,990	1,129,319	1,558,031
Capital grants	72,158	4,270,322	308,990	-	381,148	4,270,322
General:						
Property taxes	6,673,192	6,555,496	-	-	6,673,192	6,555,496
Sales taxes	2,985,139	2,977,147	-	-	2,985,139	2,977,147
Other taxes	4,234,649	3,791,199	-	-	4,234,649	3,791,199
Other and transfers (net)	468,100	383,346	(154,473)	(38,816)	313,627	344,530
Total revenues	20,184,646	22,218,070	1,555,438	1,994,419	21,740,084	24,212,489
Program Expenses:						
General government	3,844,236	3,764,540	-	-	3,844,236	3,764,540
Public safety	9,952,844	9,745,072	-	-	9,952,844	9,745,072
Transportation	1,824,311	1,582,178	-	-	1,824,311	1,582,178
Natural and economic environment	1,524,567	1,349,307	-	-	1,524,567	1,349,307
Culture and recreation	2,893,876	2,585,831	-	-	2,893,876	2,585,831
Interest on long-term debt	382,613	395,963	-	-	382,613	395,963
Surface water management	-	-	1,682,993	2,288,935	1,682,993	2,288,935
Total expenses	20,422,447	19,422,891	1,682,993	2,288,935	22,105,440	21,711,826
Revenues over (under) expenses	(237,801)	2,795,179	(127,555)	(294,516)	(365,356)	2,500,663
Beginning net position	184,304,191	183,254,389	5,341,817	5,871,998	189,646,008	189,126,387
Change in accounting principle	(1,654,742)	-	(173,475)	-	(1,828,217)	-
Prior period adjustment	(91,003)	(1,745,377)	323,109	(235,665)	232,106	(1,981,042)
Ending net position	\$182,320,645	\$184,304,191	\$ 5,363,896	\$ 5,341,817	\$187,684,541	\$189,646,008

Governmental Activities Analysis

The reasons for the changes in revenue are explained in more detail in governmental fund discussion later in this document. Property taxes were \$117,696 more than 2014 or just 1.80% change. Sales taxes increased \$7,992 over 2014 or 0.27%. The economy is improving in the City; not only have we seen an increase in retail sales, but there has also been an increase in sales tax generated by new construction activities in the City.

In total, taxes make up 68.83% of the total revenues stream as compared to 59.97% in 2014.

The operating grants of \$369,093 for general government included the following:

- Liquor Board Taxes from the State of Washington: \$179,978
- Liquor Excise Tax from the State of Washington: \$67,849
- PUD Privilege Tax from Snohomish County PUD: \$111,266
- Aide reimbursements from local governments: \$10,000

The primary source of the operating grants of \$443,635 for transportation is the City's share of the State's Motor Vehicle Fuel Tax.

The City reported investment interest of \$77,301 as compared to a \$50,301 in 2014. Note that program revenues cover 71.48% of governmental operating expenses. This means that the taxpayers and the City's other general governmental revenues cover the remaining 28.52% of the governmental expenses. As a result, the general economy and the success of City businesses have a major impact on the City's revenue streams.

Governmental functional expenses

Of the City's governmental activities functions, 48.73% of the total costs relates to public safety in 2015 as compared to 50.17% in 2014. Culture and recreation expenses make up 14.17% as compared to 13.31% in 2014.

This table presents the cost of each of the City's programs, including the net costs (i.e., total cost less revenues generated by the activities).

The net costs illustrate the financial burden that was placed on the City's taxpayers by each of these functions.

Governmental Activities				
	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
General government	\$ 3,844,236	\$ 3,764,540	\$ 1,834,841	\$ (2,561,897)
Public safety	9,952,844	9,745,072	8,969,101	9,039,196
Transportation	1,824,311	1,582,178	80,600	1,018,810
Natural and economic environment	1,524,567	1,349,307	1,522,067	1,263,935
Culture and recreation	2,893,876	2,585,831	1,809,659	1,756,002
Interest on long-term debt	382,613	395,963	382,613	395,963
Total	<u>\$ 20,422,447</u>	<u>\$ 19,422,891</u>	<u>\$ 14,598,881</u>	<u>\$ 10,912,009</u>

Business-Type Activities Analysis

The City maintains a single enterprise fund, for surface water management. In this fiscal year, operating revenues were \$1,400,921 and operating expenses were \$1,682,994, resulting in an operating loss of \$(282,073).

Revenues from charges for services increased \$39,676 or 3.04% greater in 2015 over that of 2014.

Operation and maintenance costs decreased \$33,119 or 2.54% below the 2014 amount. Depreciation expense increased \$90,481 or 35.60% in 2015 as compared to 2014. In this year, this fund transferred \$159,613 of resources to other funds. At December 31, 2015, net position totals \$5,363,896. Of this amount, \$4,447,579 or 82.92% is restricted for capital assets.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a focus on short-term inflow and outflow of spendable resources. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$10,816,937 as compared to the amount of \$9,860,499 at December 31, 2014.

The restricted amount at December 31, 2015 was \$5,310,505, relating primarily to capital improvements and tourism.

The committed amount of \$1,106,660 is primarily for a contingency reserve of \$1 million.

The General Fund reports an assigned fund balance of \$2,641,814 set aside for operating reserves.

The General Fund – The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance decreased by \$26,408 or 0.49% in 2015. In calendar year 2014, the fund balance increased \$69,266 or 1.29%.

Total revenues decreased \$52,964 or 0.40% in 2015. Total taxes increased \$25,747 or 0.25%.

Total licenses and permits were down \$35,618 or 2.69% below the 2014 amount and intergovernmental revenue increased \$27,576 or almost 6.95% above the 2014 revenue amount.

Total charges for services and fines and forfeitures were consistent with prior year revenue.

In 2015, total expenditures increased \$874,408 or 7.00% above the 2014 amount. The general government expenditures increased \$866,062 or 27.79%. The majority of this increase is due to a reclassification of facility maintenance charges which were previously transfers out and are now properly recorded as expenditures in the fund statements.

Transportation expenditures decreased by \$349,035 or down 98.47% because of an emergency project done using City Reserves was substantially completed in 2014.

In addition to the General Fund, the City reported three other major funds: Recreation and Cultural Services Fund, Emergency Medical Services Fund, and Capital Projects Fund.

The Recreation & Cultural Services Fund - This fund is financed from community center activity fees, rentals, and a subsidy from the general fund to finance the operations and maintenance of the Rosehill Community Center's building and programs.

During 2015, this fund recognized \$563,255, in revenues, primarily related to rentals and leases. In addition, the general fund transferred \$157,835 to this fund to eliminate the 2015 deficit. This fund expended \$721,090 which is a decrease of \$87,800 or down 10.85% from the 2014 amount.

Because of the transfer to fund, it reported ending fund balance of zero, the same amount as December 31, 2014.

Emergency Medical Services Fund - This fund is financed from a voter-approved tax levy to finance advanced life support (ALS) services as well as ambulance transport fees.

During 2015, this fund recognized \$2,292,686 in revenues, primarily property taxes and charges for services. This amount is \$298,078 or 14.94% more than the calendar year 2014 amount. This increase is due to a

change in the collection of ambulance transport fees which are now all recorded in the Emergency Medical Services Fund. Some of these revenues include General Fund activities from the Fire Department and administrative services so a transfer of \$276,800 was made to the General Fund. Because of this transfer Emergency Medical Services Fund reported an ending fund balance of zero, the same amount as December 31, 2014.

Capital Projects Fund – This fund combines previously separate funds related to capital projects; Park Acquisition and Development, Transportation Impact Fee, Real Estate Excise Tax I, Real Estate Excise Tax II, and Municipal Facilities.

The Capital Projects Fund is primarily funded through street and park mitigation fees, real estate excise tax, and intergovernmental grants.

Park acquisition and development is partially financed from park mitigation fees. During 2015, \$47,804 of such revenues was recognized.

Transportation projects are partially funded through street mitigation fees collected by the City as authorized by the State Environmental Policy Act and the Growth Management Act to help offset the cost of roads and other transportation infrastructure resulting from new growth and development. In 2015 the City recognized \$1,199,166 in street mitigation fees as compared to \$139,163 in 2014. This increase was due to fees received for the Harbour Reach Drive Extension project.

Other capital projects are financed mainly through revenue the City receives from taxes levied on the sale of real estate and may only be used to fund capital projects. During 2015, the City recognized real estate excise tax collected in the amount of \$1,394,335 as compared to \$938,240 in 2014.

In 2015 capital outlay projects totaled \$153,676, while non-capital maintenance and other costs totaled \$632,772. Ending fund balance in 2015 is \$5,048,088.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund's revenue budget was amended upward in calendar year 2015 by \$201,883 or less than 1.44%.

In total, tax revenue was \$528,040 below the budget. The sales tax revenue was \$394,729 below the final budget, and other taxes and assessments were \$121,617 below the final budget.

In total, the City realized 93.46% of estimated revenues.

With regard to General Fund expenditure budget, it was amended upward \$135,357 or 1.04%.

The public safety budget was overspent by \$55,214 or 0.77%. The natural and economic environment was under the budget by \$128,103 or 9.24%, and the general government budget was overspent by \$283,321 or 7.66% primarily due to the reclassification of interfund services as expenditures rather than transfers out.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's net investment in capital assets for governmental and business-type activities as of December 31, 2015 was a 0.89% decrease for governmental activities and an 8.22% increase for business-type activities. The overall decrease was 0.68% for the City as a whole. See the notes to the financial statements for additional information about changes in capital assets during the calendar year and outstanding at the end of the year.

The following table provides a summary of capital asset activity for the years ended December 31, 2014 and 2015.

	Governmental Activities		Business Activities		Total	
	2015	2014	2015	2014	2015	2014
Nondepreciable assets:						
Land	\$ 31,628,524	\$ 31,626,985	\$ 150,000	\$ 150,000	\$ 31,778,524	\$ 31,776,985
Right of way	10,580,181	10,580,181	-	-	10,580,181	10,580,181
Art collections	288,474	288,174	-	-	288,474	288,174
Construction in progress	653,720	539,398	181,800	78,504	835,520	617,902
Total nondepreciable assets	43,150,899	43,034,738	331,800	228,504	43,482,699	43,263,242
Depreciable assets:						
Buildings	27,952,020	27,952,020	-	-	27,952,020	27,952,020
Other improvements	10,615,428	10,575,837	7,501,154	7,245,234	18,116,582	17,821,071
Machinery and equipment	9,152,892	9,248,557	258,971	258,971	9,411,863	9,507,528
Infrastructure	264,245,595	264,236,834	-	-	264,245,595	264,236,834
Total depreciable assets	311,965,935	312,013,248	7,760,125	7,504,205	319,726,060	319,517,453
Less accumulated depreciation	174,210,882	172,158,604	3,644,346	3,299,716	177,855,228	175,458,320
Book value - depreciable assets	137,755,053	139,854,644	4,115,779	4,204,489	141,870,832	144,059,133
Percentage depreciated	56%	55%	47%	44%	56%	55%
Book value - all assets	<u>\$ 180,905,952</u>	<u>\$ 182,889,382</u>	<u>\$ 4,447,579</u>	<u>\$ 4,432,993</u>	<u>\$ 185,353,531</u>	<u>\$ 187,322,375</u>

At December 31, 2015, the depreciable capital assets for governmental activities were 56% depreciated, which is consistent with capital assets as of December 31, 2014.

Governmental Activities

The increase to the construction in progress consisted primarily of:

- SR526 Bike-Pedestrian Path to Boeing Project
- Harbour Reach Extension Project
- Harbour Pointe Blvd. Widening Project

Business Activities

The increase to the construction in progress consisted primarily of:

- 61st Street Culvert Replacement Project
- Naketa Beach Area Storm Pipe Extension Project

While the increase to other improvements consisted primarily of:

- Mukilteo Estate Detention Pond Retrofit Project
- 50th Street Detention Pond Retrofit Project

Long-Term Debt

The following table reports outstanding long-term debt at both December 31, 2015 and 2014.

Outstanding Borrowings						
	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ 9,650,000	\$ 10,175,000	\$ -	\$ -	\$ 9,650,000	\$ 10,175,000
Capital leases	-	4,981	-	-	-	4,981
Compensated absences	982,003	921,679	52,679	33,432	1,034,682	955,111
Pension obligation	2,978,607	2,243,751	169,866	89,369	3,148,473	2,333,120
Other post-employment benefits	222,890	176,064	-	-	222,890	176,064
Total	<u>\$ 13,833,500</u>	<u>\$ 13,521,475</u>	<u>\$ 222,545</u>	<u>\$ 122,801</u>	<u>\$ 14,056,045</u>	<u>\$ 13,644,276</u>

The general obligation bonds are reported gross (unamortized bond premium is not included). Additional information on long-term debt can be found in the notes to the financial statements. The 2015 principal payment of \$525,000 reduced the outstanding bond debt to \$9,650,000 as of the end of 2015. Annual principal and interest payments are made from funding provided by the Capital Projects Fund.

See the economic conditions discussion below for more information regarding the City's outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's 2016 budget is a continuation of our plan to keep the City on solid ground for providing services to our citizens during 2016 and for years to come. The plan for the City recognizes the financially unsettling times we have experienced as a community, but also recognizes the fact that we cannot control the economy as a whole. With this being said, the 2016 Budget lays out the City's vision for achieving our immediate priorities and implementing our long-term goals beyond 2016.

The budget emphasizes working with the resources that we have. As it stands now, Mukilteo is in good economic shape. Bank-owned homes represent a small fraction of the houses on the market, and area employers, including Boeing, are hiring again. The City continues to spend to keep its infrastructure in good shape.

Standard & Poor's spent many hours in understanding the City's finances and financial polices while developing their credit rating for the Community Center bond issue. Standard & Poor's research was concluded by recognizing our City's unique financial position and renewing their highest rating (AAA)/Negative Outlook in October 2015. This rating stated more about what kind of City Mukilteo has become and where we are headed than simply telling investors we are a safe haven to invest in. To quote Standard & Poor's bond rating rationale, they state the basis for our credit strengths as:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Adequate budgetary performance, with a slight operating deficit in the general fund but an operating surplus at the total governmental fund level;
- Very strong liquidity, with total governmental available cash of 45% of total governmental fund expenditures and access to external liquidity we consider strong;
- Adequate institutional framework score.

Much time will be spent in 2016 working on setting priorities, understanding details, enhancing our long-range financial plan, and updating the Comprehensive and Capital Facilities Plans, all while looking to the long term health, public safety, and viability of our City.

Keeping our City on solid ground has been and will continue to be a subject of discussion by Council, staff, and citizens. This discussion centers on five areas: the City's Comprehensive Plan, maintaining our infrastructure, keeping our community safe, and updating the City's Long-Range Financial Plan.

Under Mayor Gregerson's leadership, the City's broad goal is **A Sustainable, Well-Run City with Safe, and Strong Neighborhoods** with the following components:

- **Budget efficiently and effectively** to align with our priorities
- Support **diversity in our community**
- **Plan well and look forward to the future** in decision making
- Ensure residents are **safe** in our homes and neighborhoods
- **Empower** city employees to collaborate, support and serve
- Provide high quality two-way **communications** with residents and encourage full **participation** in City government
- Manage **appropriate growth** that minimizes environmental impact and uses land efficiently
- Improve **accessibility and mobility** to destinations throughout our community
- Ensure **access to quality recreation & cultural** facilities and services for residents of all ages
- Support local businesses to ensure a **healthy economy**

The 2016 budget plan recognizes that 2015 provided a reason for the City to continue its optimism for the recovery of the economy. The magnitude of the recent economic downturn resulted in a budget balancing strategy that included the use of carefully managed expenditures, anticipated revenue increases, and the prudent use of fund reserves.

2016 Budget Overview

Budgeted revenues and transfers in for all funds total \$30.3 million. Total budgeted expenditures and transfers out total \$31.9 million.

In keeping with the City's fiscally conservative approach, the budget includes an estimated ending General Fund, fund balance of \$3,736,404, which equals 25.7% of 2016 General Fund expenditures and transfers out

Requests for Information

We designed this financial report to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the Finance Director: City of Mukilteo, 11930 Cyrus Way, Mukilteo WA 98275, 425-263-8030.

Statement of Net Position
As of December 31, 2015

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 12,907,162	\$ 987,181	\$ 13,894,343
Accounts receivable	428,749	247,341	676,090
Taxes receivable	1,103,932	-	1,103,932
Prepaid assets	2,180	-	2,180
Noncurrent assets:			
Investment in joint ventures	679,215	-	679,215
Net pension asset	1,874,253	-	1,874,253
Capital assets not being depreciated:			
Land	31,628,524	150,000	31,778,524
Right of way easements	10,580,181	-	10,580,181
Art collections	288,474	-	288,474
Construction in progress	653,720	181,800	835,520
Capital assets, net of accumulated depreciation:			
Buildings	21,943,835	-	21,943,835
Other improvements	6,633,340	3,990,090	10,623,430
Machinery and equipment	3,825,192	125,689	3,950,881
Infrastructure	105,352,686	-	105,352,686
Total Assets	<u>197,901,443</u>	<u>5,682,101</u>	<u>203,583,544</u>
DEFERRED OUTFLOW OF RESOURCES			
Pension obligation	<u>738,938</u>	<u>43,667</u>	<u>782,605</u>
Total deferred outflows of resources	<u>738,938</u>	<u>43,667</u>	<u>782,605</u>
LIABILITIES			
Current liabilities:			
Accounts payable	393,981	63,431	457,412
Accrued wages	471,682	30,550	502,232
Deposits payable	165,120	-	165,120
Noncurrent liabilities:			
Due within one year	624,348	3,323	627,671
Due in more than one year	13,447,061	219,222	13,666,283
Unearned revenue	<u>232,301</u>	<u>-</u>	<u>232,301</u>
Total Liabilities	<u>15,334,493</u>	<u>316,526</u>	<u>15,651,019</u>
DEFERRED INFLOW OF RESOURCES			
Pension obligation	<u>985,243</u>	<u>45,346</u>	<u>1,030,589</u>
Total deferred inflows of resources	<u>985,243</u>	<u>45,346</u>	<u>1,030,589</u>
NET POSITION			
Net investment in capital assets	171,018,043	4,447,579	175,465,622
Restricted for:			
Capital	4,828,078	-	4,828,078
Reserves	150,354	-	150,354
Other purposes	437,533	-	437,533
Unrestricted	<u>5,886,637</u>	<u>916,317</u>	<u>6,802,954</u>
Total Net Position	<u>\$ 182,320,645</u>	<u>\$ 5,363,896</u>	<u>\$ 187,684,541</u>

The notes to the financial statements are an integral part of this statement



Statement of Activities For the year ended December 31, 2015

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-type Activities	
	Expenses					
Primary government:						
Governmental activities:						
General government	\$ 3,844,236	\$ 1,640,302	\$ 369,093	\$ (1,834,841)	\$ -	\$ (1,834,841)
Public safety	9,952,844	770,652	213,091	(8,969,101)	-	(8,969,101)
Transportation	1,824,311	1,227,918	443,635	(80,600)	-	(80,600)
Natural and economic environment	1,524,567	-	2,500	(1,522,067)	-	(1,522,067)
Culture and recreation	2,893,876	1,039,217	45,000	(1,809,659)	-	(1,809,659)
Interest on long-term debt	382,613	-	-	(382,613)	-	(382,613)
Total governmental activities:	20,422,447	4,678,089	1,073,319	(14,598,881)	-	(14,598,881)
Business-type activities:						
Surface water	1,682,993	1,344,921	56,000	-	26,918	26,918
Total business-type activities:	1,682,993	1,344,921	56,000	-	26,918	26,918
Total primary government	\$ 22,105,440	\$ 6,023,010	\$ 1,129,319	\$ (14,598,881)	\$ 26,918	\$ (14,571,963)
General revenues:						
Property taxes				\$ 6,673,192	\$ -	\$ 6,673,192
Sales taxes				2,985,139	-	2,985,139
Other taxes				4,234,649	-	4,234,649
Interest earnings				77,301	-	77,301
Miscellaneous Revenue				231,186	5,140	236,326
Transfers				159,613	(159,613)	-
Total general revenues and transfers				14,361,080	(154,473)	14,206,607
Change in net position				(237,801)	(127,555)	(365,356)
Net position - beginning				184,304,191	5,341,817	189,646,008
Change in accounting principle				(1,654,742)	(173,475)	(1,828,217)
Prior period adjustment				(91,003)	323,109	232,106
Restated net position - beginning				182,558,446	5,491,451	188,049,897
Net position - ending				\$ 182,320,645	\$ 5,363,896	\$ 187,684,541

The notes to the financial statements are an integral part of this statement



Balance Sheet - Governmental Funds
As of December 31, 2015

	General Fund	Recreation & Cultural Services	Emergency Medical Services	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 5,046,899	\$ 292,812	\$ 67,454	\$ 5,199,283	\$ 338,118	\$ 10,944,566
Accounts receivable	274,488	20,544	149,963	23,720	4,542	473,257
Taxes receivable	794,894	-	9,192	191,182	108,664	1,103,932
Prepaid assets	2,180	-	-	-	-	2,180
Total assets	6,118,461	313,356	226,609	5,414,185	451,324	12,523,935
LIABILITIES						
Accounts payable	156,706	15,517	63,384	87,707	67,920	391,234
Accrued wages	357,040	21,724	61,928	-	21,848	462,540
Deposits payable	115,033	50,088	-	-	-	165,121
Interfund loans payable	-	-	-	270,000	-	270,000
Unearned revenue	6,274	226,027	-	-	-	232,301
Total liabilities	635,053	313,356	125,312	357,707	89,768	1,521,196
DEFERRED INFLOW OF RESOURCES						
Unavailable revenue - receivables	76,115	-	101,297	8,390	-	185,802
Total deferred inflows	76,115	-	101,297	8,390	-	185,802
FUND BALANCES						
Nonspendable	2,180	-	-	-	-	2,180
Restricted	120,871	-	-	4,828,078	361,556	5,310,505
Committed	1,106,660	-	-	-	-	1,106,660
Assigned	2,421,804	-	-	220,010	-	2,641,814
Unassigned	1,755,778	-	-	-	-	1,755,778
Total fund balance	\$ 5,407,293	\$ -	\$ -	\$ 5,048,088	\$ 361,556	\$ 10,816,937
Amounts reported for governmental activities in the statement of net position are different because:						
Capital assets used in governmental activities are not financial resources and, therefore,					178,442,397	
are not reported in the funds.						
Other long-term assets are not available to pay for current period expenditures and,					679,215	
therefore are not reported in the funds.						
Other items related to pension activity that are not financial resources and, therefore,					1,628,211	
are not reported in the funds.						
Deferred inflows related to unearned revenue that are not available in the current period,					185,802	
and therefore, are not reported in the funds.						
Long-term liabilities are not due and payable in the current period and, therefore,					(14,023,871)	
are not reported in the funds.						
Internal service funds are used by management to charge the costs of certain activities, such as					4,591,954	
facilities maintenance and equipment repair, to individual funds. The assets and liabilities of the						
internal service funds are included in governmental activities in the statement of net position.						
Net position of governmental activities					\$ 182,320,645	

The notes to the financial statements are an integral part of this statement



Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds For the year ended December 31, 2015

	General Fund	Recreation & Cultural Services	Emergency Medical Services	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 4,880,801	\$ -	\$ 1,792,391	\$ -	\$ -	\$ 6,673,192
Sales taxes	2,728,416	-	-	-	256,723	2,985,139
Other taxes and assessments	2,812,040	-	-	1,380,164	42,446	4,234,650
Licenses and permits	1,290,506	900	-	-	-	1,291,406
Intergovernmental	424,419	30,000	-	65,661	436,506	956,586
Charges for services	332,043	122,120	500,031	1,246,970	28,752	2,229,916
Fines and forfeitures	211,458	-	-	-	-	211,458
Rents and leases	473,557	402,387	-	-	-	875,944
Interest earnings	77,479	-	-	-	-	77,479
Contributions and donations	16,435	2,850	-	-	-	19,285
Miscellaneous revenues	76,810	4,998	264	11,664	19,043	112,779
Total revenues	13,323,964	563,255	2,292,686	2,704,459	783,470	19,667,834
EXPENDITURES						
General government	3,982,666	-	-	2,424	-	3,985,090
Public safety	7,247,086	-	2,015,886	-	14,079	9,277,051
Transportation	5,425	-	-	630,348	840,340	1,476,113
Natural and economic environment	1,258,372	-	-	-	212,281	1,470,653
Culture and recreation	684,108	721,090	-	-	-	1,405,198
Debt service:						
Principal	-	-	-	-	525,000	525,000
Interest and other debt costs	-	-	-	9,000	382,613	391,613
Capital outlay:						
Capital outlay	180,324	-	-	153,676	6,291	340,291
Total expenditures	13,357,981	721,090	2,015,886	795,448	1,980,604	18,871,009
Excess (deficiency) of revenues over expenditures	(34,017)	(157,835)	276,800	1,909,011	(1,197,134)	796,825
OTHER FINANCING SOURCES (USES)						
Transfers in	436,413	157,835	-	-	1,178,882	1,773,130
Transfers out	(428,804)	-	(276,800)	(907,913)	-	(1,613,517)
Total other financing sources (uses)	7,609	157,835	(276,800)	(907,913)	1,178,882	159,613
Net change in fund balances	(26,408)	-	-	1,001,098	(18,252)	956,438
Fund balances - beginning	5,433,701	-	-	4,046,990	379,808	9,860,499
Fund balances - ending	\$ 5,407,293	\$ -	\$ -	\$ 5,048,088	\$ 361,556	\$ 10,816,937

The notes to the financial statements are an integral part of this statement

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds to the Statement of Activities**
For the year ended December 31, 2015

Amounts reported for governmental activities in the statement of activities
are different because:

Net changes in fund balances for governmental funds	\$ 956,438
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Governmental funds report capital outlay as expenditures.	
However, in the statement of activities, the cost of these assets	
is allocated over their estimated useful lives and reported as	
depreciation expense. This is the amount by which capital	
outlays exceeded depreciation expense in the current period.	(1,924,481)
Capital outlays	340,291
Donations	300
Depreciation	(2,265,072)

The issuance of long-term debt (e.g., bonds) provides current	
financial resources to governmental funds, while the repayment	
of the principal of long-term debt consumes the current	
financial resources of governmental funds. Neither transaction,	
however, has any effect on net position. This amount is the net	
effect of these differences in the treatment of long-term debt and	
related items.	507,592
Bonds payable	525,000
Unamortized bond premium	(17,408)

Revenues in the statement of activities that do not provide	
current financial resources are not reported as revenues in the	
funds.	184,987
Investment in joint ventures	(889)
Deferred inflows	185,876

Some expenses reported in the statement of activities do not	
require the use of current financial resources and, therefore, is	
not reported as expenditures in the government funds.	
	199,484
Compensated absences	(57,468)
Pension obligation	303,778
Post employment benefit obligation	(46,826)

Internal service funds are used by management to charge the	
costs of certain activities, such as facility maintenance and	
equipment repair to individual funds. This consists of:	(161,821)

Change in net position of governmental activities	<u>\$ (237,801)</u>
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The notes to the financial statements are an integral part of this statement

Statement of Net Position - Proprietary Funds
As of December 31, 2015

	Business-type Activities	Governmental Activities
	Surface Water Management	Internal Service Funds
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 987,181	\$ 1,962,594
Accounts receivable	247,341	368
Interfund loans receivable	-	270,000
Total current assets	<u>1,234,522</u>	<u>2,232,962</u>
Noncurrent assets:		
Capital assets:		
Land	150,000	-
Art collections	-	8,799
Construction in progress	181,800	-
Buildings	-	13,223
Other Improvements	3,990,090	37,787
Machinery and equipment	125,689	2,403,746
Total capital assets, net depreciation	<u>4,447,579</u>	<u>2,463,555</u>
Total noncurrent assets	<u>4,447,579</u>	<u>2,463,555</u>
Total assets	<u>5,682,101</u>	<u>4,696,517</u>
DEFERRED OUTFLOW OF RESOURCES		
Pension obligation	<u>43,667</u>	<u>6,857</u>
Total deferred inflows	<u>43,667</u>	<u>6,857</u>
LIABILITIES		
Current liabilities:		
Accounts payable	63,431	42,639
Accrued wages	30,550	9,142
Total current liabilities	<u>93,981</u>	<u>51,781</u>
Noncurrent liabilities		
Due within one year	3,323	6,297
Due in more than one year	219,222	46,222
Total noncurrent liabilities	<u>222,545</u>	<u>52,519</u>
Total liabilities	<u>316,526</u>	<u>104,300</u>
DEFERRED INFLOW OF RESOURCES		
Pension obligation	<u>45,346</u>	<u>7,120</u>
Total deferred inflows	<u>45,346</u>	<u>7,120</u>
NET POSITION		
Net investment in capital assets	4,447,579	2,463,555
Unrestricted	916,317	2,128,399
Total net position	<u>\$ 5,363,896</u>	<u>\$ 4,591,954</u>

The notes to the financial statements are an integral part of this statement



Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
For the year ended December 31, 2015

	Business-type Activities	Governmental Activities
	Surface Water Management	Internal Service Funds
Operating revenues:		
Charges for services	\$ 1,344,921	\$ 862,298
Intergovernmental	56,000	-
Total operating revenues	<u>1,400,921</u>	<u>862,298</u>
Operating expenses:		
Operations and maintenance	1,338,364	653,893
Depreciation	344,630	425,226
Total operating expenses	<u>1,682,994</u>	<u>1,079,119</u>
Operating income (loss)	<u>(282,073)</u>	<u>(216,821)</u>
Non-operating revenues (expenses):		
Intergovernmental	308,990	-
Interest earnings	-	9,000
Other non-operating	5,141	46,000
Total non-operating revenue (expenses)	<u>314,131</u>	<u>55,000</u>
Income (loss) before transfers	32,058	(161,821)
Transfers in	-	-
Transfers out	<u>(159,613)</u>	<u>-</u>
Change in net position	<u>(127,555)</u>	<u>(161,821)</u>
Net position - beginning	5,341,817	4,793,272
Change in accounting principle	(173,475)	(27,240)
Prior period adjustment	323,109	(12,257)
Restated net position - beginning	<u>5,491,451</u>	<u>4,753,775</u>
Net position - ending	<u><u>\$ 5,363,896</u></u>	<u><u>\$ 4,591,954</u></u>

The notes to the financial statements are an integral part of this statement



Statement of Cash Flows - Proprietary Funds
For the year ended December 31, 2015

	Business-type Activities	Governmental Activities
	Surface Water Management	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from:		
Customers	\$ 1,881,171	\$ -
Interfund services provided	-	862,298
Other governments	56,000	-
Cash payments to:		
Suppliers for goods and services	(581,758)	(509,475)
Interfund services used	(36,080)	-
Employees	(480,727)	(161,292)
Other governments	(274,543)	-
Net cash provided by (used for) operating activities	<u>564,063</u>	<u>191,531</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating subsidies and transfers to other funds	<u>(159,613)</u>	<u>-</u>
Net cash provided by (used for) noncapital financing activities	<u>(159,613)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from:		
Interfund loans	-	30,000
Other governments	314,131	-
Payments for:		
Capital assets	<u>(359,219)</u>	<u>(309,738)</u>
Net cash provided by (used for) capital related financing activities	<u>(45,088)</u>	<u>(279,738)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>-</u>	<u>9,000</u>
Net cash provided by investing related activities	<u>-</u>	<u>9,000</u>
Net increase (decrease) in cash balance	359,362	(79,207)
Cash balance at beginning of year	627,819	2,041,801
Cash balance at end of year	<u>\$ 987,181</u>	<u>\$ 1,962,594</u>

The notes to the financial statements are an integral part of this statement



Statement of Cash Flows - Proprietary Funds
For the year ended December 31, 2015

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Surface Water Management</u>	<u>Internal Service Funds</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (282,073)	\$ (216,821)
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	344,630	425,226
Decrease (increase) in accounts receivable	536,250	(368)
Increase (decrease) in accounts payable	(54,553)	(20,020)
Increase (decrease) in employee benefits	19,809	3,514
Net cash provided by operating activities	<u>\$ 564,063</u>	<u>\$ 191,531</u>
Schedule of noncash capital, investing, and financing activities:		
Depreciation	(344,630)	(425,226)
Prior period adjustment	323,109	(12,257)

The notes to the financial statements are an integral part of this statement



Statement of Net Position - Fiduciary Funds
As of December 31, 2015

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 28,913</u>
Total assets	<u>28,913</u>
LIABILITIES	
Liabilities payable from restricted assets	<u>28,913</u>
Total liabilities	<u><u>\$ 28,913</u></u>

The notes to the financial statements are an integral part of this statement

Notes to Financial Statements

For the year ended December 31, 2015

The following notes are an integral part of the accompanying financial statements.

Note 1: Summary of Significant Accounting Policies

The financial statements of the City of Mukilteo have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The City of Mukilteo was incorporated on May 12, 1947 and operates as a non-charter code city with a Mayor-Council form of government under the provisions of Revised Code of Washington (RCW) 35A, et al. This form is commonly referred to as an "optional code city" that essentially enjoys all the rights and privileges granted to larger cities or charter cities. Legislative authority is vested in a seven-member City Council. Council members are elected by position number to four-year overlapping terms. Three to four council members are up for election every two years. The Council is composed of a president and vice-president who are elected by the Council for a one year term each. The Mayor serves as the Chief Executive Officer and is elected to a four-year term by general election. The Mayor appoints the Management Services Director, with confirmation by the Council. The Management Services Director oversees all City operations and implements policy direction.

The City's major operations include police protection, fire control/prevention and emergency medical response, parks and recreation, planning and zoning, street improvement, and general administrative services. In addition, the City owns and operates a surface water management system.

As required by GAAP, the City's financial statements present the City of Mukilteo, the primary government. There are no component units included in these statements.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements.

The **government-wide financial statements** (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is not allocated to the various functions. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods and services provided by a given function or segment of the City, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate **fund financial statements** are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. The fiduciary fund financial statements have no measurement focus since they primarily represent assets held by the City in a custodial capacity. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are earned by December 31 (all eligibility requirements have been met) and the revenue is expected to be collected within 60 days after year-end. Expenditures are recorded when the related debt is incurred, except for un-matured interest on general long-term debt, which is recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

As a general rule, the effect of the interfund activity has been eliminated for the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally restricted resources are reported as general revenues rather than program revenues. General revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. The order of use of unrestricted resources (committed, assigned, or unassigned) is subject to determination based on the nature and circumstances of the specific needs at the time and the funds involved.

The City uses an agency fund to account for assets held for the benefit of others. Agency funds have no measurement focus.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund includes administration, finance, police, fire, planning and community development, parks maintenance, and public works and engineering management.

Financial statements for the General Fund include the City Reserve Fund, Paine Field Emergency Reserve Fund, LEOFF Reserve Fund, Health Insurance Administration Reserve Fund, Unemployment Compensation Reserve Fund, and the Technology Replacement Fund.

The **Recreation and Cultural Services Center Fund** receives a transfer from the General Fund as well as Community Center activity fees and rental revenues, and finances for the operations and maintenance of the Community Center's building and programs.

The **Emergency Medical Services Fund** receives tax revenues from a voter-approved tax levy to finance advanced life support (ALS) services.

The **Capital Projects Fund** is used to account for financial resources used for the acquisition or construction of major capital projects (other than those financed by business-type/proprietary funds).

Financial statements for the Capital Projects Fund include Park Acquisition and Development Fund, Transportation Impact Fee Fund, Real Estate Excise Tax I and II Funds, and the Municipal Facilities Fund.

The City reports the following enterprise fund:

The **Surface Water Management Fund** accounts for the revenues and expenses to operate and maintain the surface water management system. The principal operating revenues of the fund are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Additionally, the City reports the following non-major funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes:

The **Drug Enforcement Fund** was created in 2011 and is regulated by the Revised Code of Washington Chapter 69.50 which prescribes procedures relating to the seizure and forfeiture of proceeds from the sale of illegal drugs. This fund may be used for drug enforcement equipment, investigations, education, or similar purposes as defined by state law. A portion of monies forfeited must be remitted to the state or federal government as applicable.

The **Hotel/Motel Lodging Tax Fund** receives the 2% hotel/motel tax assessed on hotels/motels within the City. These funds are mandated to be used only for tourism promotion and operations and maintenance of tourism facilities in the City.

The **Street Fund** receives a transfer from the General Fund, in addition to the Motor Vehicle Fuel Excise Tax (gas tax) received. These revenues are used for street maintenance.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt:

The **Limited Tax General Obligation Bond Fund** receives transfers from the Real Estate Excise Tax I and II Funds, and is used to pay principal and interest on bonds issued in 2009.

Internal Service Funds are used to provide goods and services to other departments and funds on a cost reimbursement basis:

The **Equipment Replacement Fund** finances the replacement, pursuant to a detailed equipment replacement schedule, of all capital equipment owned by the City. Departments are charged an annual fee set aside to replace capital equipment in the future.

The **Facilities Maintenance Fund** charges the General Fund for expenditures related to the maintenance of City facilities.

Fiduciary Funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) private-purpose trust funds, (b) pension (and other employee benefit) trust funds, (c) investment trust funds, and (d) agency funds. The City reports one fiduciary/agency fund:

The **Treasurer's Suspense Fund** is used to report assets which are held in a custodial capacity for others. Fund assets do not belong to the City.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted at the fund level for general, special revenue, debt service and capital project funds, on the modified accrual basis of accounting. Budgets for capital project funds are adopted at the level of the individual project and are shown in the financial statements on an annual basis. The required supplementary information contains original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

Appropriations lapse at year-end. If unused appropriations are needed in the following year, they must be re-appropriated in the next year's operating budget. The City does not use encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation for subsequent expenditure.

2. Amending the Budget

The Mayor and Management Services Director are authorized to transfer budgeted amounts within any fund. However, any revisions that alter the total appropriations of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council. When the City Council determines that it is in the best interest of the City to increase or decrease the appropriations for a particular fund, it may do so by ordinance approved by one more than a simple majority after holding public hearings.

3. Excess of Expenditures over Appropriations

There have been no material violations of finance related legal or contractual provisions in any major or non-major City fund.

E. Assets, Liabilities, Deferred Outflows/Inflows, Fund Balance, Net Position or Equities

1. Cash and Cash Equivalents (Note 3)

The City pools cash resources of its various funds with the Washington State Local Government Investment Pool and Snohomish County Investment Pool in order to facilitate the management of cash. The balance in the pooled cash accounts is available to meet current operating requirements. All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and at the date of purchase, they have a maturity date no longer than three months.

The City's deposits are entirely covered by Federal Depository Insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Depository Protection Commission (PDPC).

2. Investments (Note 3)

It is the City's policy to invest all temporary cash surpluses. At December 31, 2015, the treasurer was holding short-term deposits with the State Investment Pool and the County Investment Pool.

3. Receivables (Note 4)

Taxes receivable consist of taxes and related interest and penalties received after year end.

Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services including amounts earned for which billings have not been prepared.

4. Amounts Due To and From Other Funds and Governments and Interfund Loans (Note 13)

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported as interfund loans receivable and payable. Activities between funds that are for obligations of less than one year are receivables and payables, this covers cash shortfalls in funds primarily supported by another fund.

5. Inventory and Prepaid Items

Inventories are valued at the FIFO (first in, first out) method, which approximates the fair value. Inventories in governmental funds consist of expendable supplies held for consumption. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

6. Restricted Assets and Liabilities

Net position is segregated into three categories on the government-wide statement of net position: net investment in capital assets; restricted; and unrestricted. The flow assumption of the City is to use restricted assets before unrestricted assets. Restricted assets are usually set aside in a separate fund, specifically used for the purpose of debt service or capital replacement.

7. Capital Assets and Depreciation (Note 5)

Capital Assets are defined as land and artwork or historic collections of any value; improvements and infrastructure; buildings, their furnishings, fixtures, and furniture; equipment, machinery, vehicles, and tools, with a value of \$5,000 or more for non-infrastructure or \$10,000 or more per item for infrastructure, and having a useful life exceeding one year from the date of acquisition. All non-infrastructure assets with a cost of \$5,000 or more, and infrastructure additions where individual items cost \$10,000 or more, will be capitalized.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The City has adopted the Modified Approach for streets and, as a result, infrastructure is treated as an inexhaustible capital asset, thereby eliminating the need for depreciation accounting. The costs for normal maintenance and repairs are not capitalized. Major outlays for capital assets are capitalized as the projects are constructed.

Property, plant, and equipment of the City, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful Life (Years)
Buildings and Improvements	5 – 100
Storm Drainage Systems	6 – 75
Street Systems	15 – 51
Park Facilities and Streetscape	30
Streetlights and Traffic Control Devices	40
Equipment	3 – 20
Furniture and Fixtures	3 – 20
Vehicles	3 – 30
Computers / Software	3

8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, compensatory time in lieu of overtime, and sick leave. All vacation and compensatory time is accrued when incurred in the government-wide and proprietary fund financial statements.

Employees who work under the terms of a collective bargaining agreement should refer to their contract for information regarding vacation, compensatory time, and sick leave.

Non-represented full-time employees may not carry over more than two years' worth of accrued vacation to the next calendar year. Upon termination of employment, an employee will be paid for vacation accrued as of the date of the termination at their current rate of pay. In the event of a regular employee's death, compensation will be paid to the employee's designated beneficiary or to the employee's heirs or estate in accordance with state law. Non-represented employees who separate honorably from the City (e.g., voluntary resignation or disability or service retirement) may receive payment for unused accumulated sick leave in accordance with the Employee Handbook.

9. Pensions (Note 6)

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

10. Long-Term Debt (Note 9)

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

11. Unearned Revenue

Unearned revenue is a liability for resources obtained, that does not qualify for recognition as revenue, and therefore are not yet considered to be available. Unearned revenues presented in this manner on the accompanying financial statements are related to recreational deposits.

12. Deferred Inflows and Outflows of Resources

Deferred inflows are used to offset an increase in outstanding receivables for which the revenue is not yet available. See Note 1, section E 9 above, as well as Note 6 for deferred inflows and outflows of resources related to pension activities.

13. Fund Balances

Fund balances are reported in five classifications – nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balances are those not in a spendable form (such as inventories or long-term receivables) or subject to legal/contractual requirements to be maintained intact. Restricted fund balances are subject to limitations imposed by external sources such as creditors,

grantors, laws or regulations. Committed fund balances are designated for specific purposes through formal action of the government's highest level of decision making authority (City Council). Assigned fund balances reflect the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is not restricted, committed, or assigned to a specific purpose within the General Fund.

When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purposes, it is the City's practice to use restricted resources first. Furthermore, when committed, assigned, and unassigned resources can be used for the same purpose, it is the City's practice to use committed resources first, assigned second, and unassigned last.

Fund balances classified as committed can only be used for specific purposes as prescribed by the City Council via a resolution. Modifications to committed funds must also be made by resolution. Assigned fund balances are also designated by action of the City Council.

The details of fund balance classifications as reported on the Balance Sheet – Governmental Funds are as follows for December 31, 2015:

	General Fund	Recreation & Cultural Services	Emergency Medical Services	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES						
Nonspendable						
Prepaid items	\$ 2,180	\$ -	\$ -	\$ -	\$ -	\$ 2,180
Restricted						
Capital	-	-	-	4,828,078	-	4,828,078
Culture and recreation	1,200					1,200
Debt service	-	-	-	-	9,258	9,258
Natural environment	73,000	-	-	-	-	73,000
Public safety	-	-	-	-	33,497	33,497
Self insurance	46,671	-	-	-	-	46,671
Tourism	-	-	-	-	318,240	318,240
Transportation	-	-	-	-	561	561
Committed						
Culture and recreation	2,977	-	-	-	-	2,977
Contingency reserve	1,000,000	-	-	-	-	1,000,000
Employee benefits	44,330	-	-	-	-	44,330
Technology reserve	59,353	-	-	-	-	59,353
Assigned						
Operating reserve	2,421,804	-	-	220,010	-	2,641,814
Unassigned	1,755,778	-	-	-	-	1,755,778
Total fund balance	\$ 5,407,293	\$ -	\$ -	\$ 5,048,088	\$ 361,556	\$ 10,816,937

Note 2: Stewardship, Compliance and Accountability

The City maintains the following reserves and minimum fund balance policies:

Contingency Fund Reserve: \$1,000,000 to provide a financial cushion to cover revenue shortfalls resulting from unexpected economic changes or recessionary periods or to provide resources in the event of major unplanned expenditures the City could face as a result of natural disaster, for example.

General Fund Operating Reserves: An amount equal to two months of General fund budgeted operating expenditures, to provide for adequate cash flow, budget contingencies, and insurance reserves.

Hotel/Motel Lodging Tax Reserves: The City maintains a Hotel/Motel Lodging Tax Reserve fund in an amount equal to one prior complete year's revenues in ending fund balance. The fund balance of the Hotel/Motel Lodging Tax fund is reported as restricted as allowable expenditures are prescribed by state law.

Technology Replacement Reserves: For the replacement of entity-wide computer hardware, software, or telephone equipment identified in the City's Technology Replacement listing. The required level of reserve is equivalent to each year's scheduled replacement costs.

Health Self-Insured Administration Reserves: To provide Washington State mandated reserves for the City's self-insured dental and vision benefits for City employees; equivalent to 16 weeks of budgeted expenditures.

Equipment and Vehicle Replacement Reserves: To provide for the replacement of vehicles and equipment identified in the City's equipment replacement listing. The required level of reserve in this internal service fund equals each year's scheduled replacement costs. Contributions are made through assessments to the using funds calculated on a per asset basis.

Surface Water Management Fund Reserves: The City maintains an operating reserve within the Surface Water Management fund, an enterprise fund, in an amount equal to no less than 20% of budgeted operating revenues.

Note 3: Deposits and Investments

Deposits

The City's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institutions failure, it is the risk that the City would not be able to recover its deposits that are in the position of outside parties.

Investments

Interest Rate Risk

The City manages its exposure to declines in fair values by limiting the weighted average maturity of its investments portfolio to three years or less. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase. Reserve funds may be invested in securities maturing in more than five years if the maturity of such investment is made to coincide as nearly as practicable with the expected use of funds.

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

As required by state law, all City investments are limited to obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, repurchase agreements, banker's acceptances, the Washington State Local Government Investment Pool, County Investment Pool, and time certificates of deposit with authorized Washington State banks.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City limits its exposure to concentration risk by investing in U.S. government obligations or U.S. government agency securities.



Deposits and investments in financial institutions consist of the following as of December 31, 2015;

<u>Deposits and investments</u>	<u>Maturities</u>	<u>Fair Value</u>
Snohomish County Local Investment Pool	Less than one year	\$ 10,099,012
State of Washington Local Government Investment Pool	Less than one year	2,842,112
Deposits in U.S. Bank		<u>1,345,342</u>
		<u>\$ 14,286,466</u>

Note 4: Property Taxes

Property taxes are recognized as revenue in the government-wide financial statements when an enforceable legal claim has arisen; the City recognizes revenue and a receivable for the entire tax levy in the year it was levied. No allowance for uncollectible accounts is established because delinquent taxes are considered fully collectible.

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

Property Tax Calendar	
January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed
April 30	First of two equal installments payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

The City may levy up to \$3.132 per \$1,000 of assessed valuation for general governmental services, subject to two limitations:

Washington State law (RCW 84.55.010) limits the growth of regular property taxes to 6 percent (6%) per year, after adjustments for new construction. If the assessed valuation increases by more than 6 percent (6%) due to revaluation, the levy rate will be decreased.

The Washington State Constitution limits the total regular property taxes to 1 percent (1%) of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed that amount, each is proportionally reduced until the total is at or below the 1 percent (1%) limit.

Special levies approved by the voters are not subject to the limitations listed above.

Note 5: Capital Assets

Minor gains or losses occasionally occur on disposal of capital assets. When such minor gains or losses occur, the City reports them as miscellaneous revenues or expenditures.

Capital asset activity in the primary government for the year ended December 31, 2015 was as follows:

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 31,626,985	\$ 1,539	\$ -	\$ 31,628,524
Right of way	10,580,181	-	-	10,580,181
Art	288,174	300	-	288,474
Construction in progress	539,398	114,322	-	653,720
Total capital assets, not being depreciated	<u>43,034,738</u>	<u>116,161</u>	<u>-</u>	<u>43,150,899</u>
Capital assets, being depreciated/amortized:				
Buildings	27,952,020	-	-	27,952,020
Other improvements	10,575,837	39,591	-	10,615,428
Machinery & equipment	9,248,557	542,355	(638,020)	9,152,892
Infrastructure	264,236,834	8,761	-	264,245,595
Total capital assets, being depreciated	<u>312,013,248</u>	<u>590,707</u>	<u>(638,020)</u>	<u>311,965,935</u>
Less accumulated depreciation/amortization for:				
Buildings	(5,181,147)	(827,038)	-	(6,008,185)
Other improvements	(3,288,190)	(693,898)	-	(3,982,088)
Machinery & equipment	(5,065,091)	(900,629)	638,020	(5,327,700)
Infrastructure	(158,624,176)	(268,733)	-	(158,892,909)
Total accumulated depreciation	<u>(172,158,604)</u>	<u>(2,690,298)</u>	<u>638,020</u>	<u>(174,210,882)</u>
Total capital assets, being depreciated, net	<u>139,854,644</u>	<u>(2,099,591)</u>	<u>-</u>	<u>137,755,053</u>
Governmental activities capital assets, net	<u>\$ 182,889,382</u>	<u>\$ (1,983,430)</u>	<u>\$ -</u>	<u>\$ 180,905,952</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
General government	\$ 464,995
Public safety	554,568
Transportation	314,085
Natural & economic environment	25,403
Culture & recreation	<u>1,331,247</u>
Total depreciation expense	<u>\$ 2,690,298</u>



Capital asset activity in the primary government for the year ended December 31, 2015 was as follows:

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 150,000	\$ -	\$ -	\$ 150,000
Right of way	-	-	-	-
Art	-	-	-	-
Construction in progress	78,504	122,217	(18,921)	181,800
Total capital assets, not being depreciated	<u>228,504</u>	<u>122,217</u>	<u>(18,921)</u>	<u>331,800</u>
Capital assets, being depreciated:				
Buildings	-	-	-	-
Other improvements	7,245,234	255,920	-	7,501,154
Machinery & equipment	258,971	-	-	258,971
Infrastructure	-	-	-	-
Total capital assets, being depreciated	<u>7,504,205</u>	<u>255,920</u>	<u>-</u>	<u>7,760,125</u>
Less accumulated depreciation for:				
Buildings	-	-	-	-
Other improvements	(3,200,948)	(310,116)	-	(3,511,064)
Machinery & equipment	(98,768)	(34,514)	-	(133,282)
Infrastructure	-	-	-	-
Total accumulated depreciation	<u>(3,299,716)</u>	<u>(344,630)</u>	<u>-</u>	<u>(3,644,346)</u>
Total capital assets, being depreciated, net	<u>4,204,489</u>	<u>(88,710)</u>	<u>-</u>	<u>4,115,779</u>
Business-type capital assets, net	<u>\$ 4,432,993</u>	<u>\$ 33,507</u>	<u>\$ (18,921)</u>	<u>\$ 4,447,579</u>

Depreciation expense was charged to Business-type functions based on their usage of assets as follows:

Business-type activities:

Surface Water	<u>\$ 344,630</u>
Total depreciation expense	<u>\$ 344,630</u>

Note 6: Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 3,148,473
Pension assets	1,874,253
Deferred outflows of resources	782,605
Deferred inflows of resources	1,030,589
Pension expense/expenditures	496,416



State Sponsored Pension Plans

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement system (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

The City's actual contributions to the plan were \$158,036 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The City's actual contributions to the plan were \$209,660 for the year ended December 31, 2015.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The LEOFF Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.23%	8.41%
Ports and Universities	8.59%	8.41%

The City's actual contributions to the plan were \$263,284 for the year ended December 31, 2015.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2015, the state contributed \$58,339,032 to LEOFF Plan 2.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 3% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the 2007-2012 Experience Study Report, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the 2007-2012 Experience Study Report.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be

available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease -6.50%	Current Discount Rate -7.50%	1% Increase -8.50%
PERS 1	\$ 2,124,079	\$ 1,744,619	\$ 1,418,319
PERS 2/3	4,104,942	1,403,854	(664,268)
LEOFF 1	(35,815)	(55,983)	(73,172)
LEOFF 2	1,820,880	(1,818,270)	(4,556,870)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City's proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 1,744,619
PERS 2/3	1,403,854
LEOFF 1	(55,983)
LEOFF 2	(1,818,270)

The amount of the liability/(asset) reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with the City were as follows:

	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
City's proportionate share of the net pension liability/(asset)	\$ 1,744,619	1,403,854	(55,983)	(1,818,270)
State's proportionate share of the net pension liability/(asset) associated with the City	-	-	-	(1,202,242)
Total	\$ 1,744,619.00	\$ 1,403,854.00	\$ (55,983.00)	\$ (3,020,512.00)

At June 30, the City's proportionate share of the collective net pension liabilities was as:

	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
2014	0.031653%	0.036539%	0.004607%	0.185026%
2015	0.033352%	0.039290%	0.004645%	0.176909%
Change in proportion	0.001699%	0.002751%	0.000038%	-0.008117%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Nonemployer Allocations for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.



Pension Expense

For the year ended December 31, 2015, the City recognized pension expense as follows:

	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
Pension Expense	\$ 200,211	\$ 193,714	\$ (11,361)	\$ 113,852

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflow of resources			
	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
Differences between expected and actual experience	\$ -	\$ 149,230	\$ -	\$ 159,220
Net difference between projected and actual investment earnings on pension plan investments	-	-	-	-
Changes of assumptions	-	2,262	-	4,796
Changes in proportion and differences between contributions and proportionate share of contributions	-	88,518	-	42,542
Contributions subsequent to the measurement date	81,955	120,877	-	133,205
Total	\$ 81,955	\$ 360,887	\$ -	\$ 339,763

	Deferred inflow of resources			
	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	95,450	374,763	9,451	550,925
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Total	\$ 95,450	\$ 374,763	\$ 9,451	\$ 550,925

Except for the City contributions made subsequent to the measurement date recorded as deferred outflows of resources which will be recognized as a reduction of the net pension liability or an increase of the net pension asset in the year ended December 31, 2016, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows;

	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
2016	\$ (19,090)	\$ (14,488)	\$ (1,890)	\$ (75,550)
2017	(19,090)	(14,488)	(1,890)	(75,550)
2018	(19,090)	(14,488)	(1,890)	(75,550)
2019	(19,090)	(30,109)	(1,890)	(75,550)
2020	(19,090)	(61,180)	(1,891)	(75,550)
Thereafter	-	-	-	33,383
Total	\$ (95,450)	\$ (134,753)	\$ (9,451)	\$ (344,367)

Note 7: Other Personnel Benefits

Deferred Compensation

The City offers employees three deferred compensation plans in accordance with Internal Revenue Code Section 457. These plans enable employees to defer a portion of their compensation until future years. The City makes contributions in accordance with bargaining agreements. The City does not exercise control or fiduciary responsibility over the plan's assets, therefore the assets, liabilities, and transactions are not included in the City's financial statements.

Post-Employment Benefits

In accordance with the Revised Code of Washington (RCW) 41.26, the City provides lifetime medical care for law enforcement officers employed prior to October 1, 1977. Under this requirement, most coverage for eligible retirees is provided for in the City's employee medical insurance programs. However, under authorization of the Disability Board, direct payment is also made for some retiree medical expenses not covered by standard benefit plan provisions. When members turn 65, they go to Medicare for first provider and the City reimburses the cost of Medicare. The retiree does not contribute towards the cost of his/her medical care.

The City provides costs on a pay-as-you-go basis and used the alternative measurement method permitted under GASB Statement No. 45 for the purpose of determining the actuarial accrued liability. The City has no active members and two inactive members who have left service. At the end of 2015 ages were as follows: one member at the age of 64 and one member at the age of 76. Mortality rates were assumed to follow the LEOFF 1 mortality rates used in the June 2011, actuarial valuation reported issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the statewide LEOFF 1 medical study performed in 2013. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. These assumptions are individually and collectively reasonable for the purposes of this valuation.

Information based on estimates from the OSA assuming Medical Inflation of +or- 5% and Amortization Period of 10 years. The following table shows the components of the City's annual other post-employment benefits (OPEB) costs and Net OPEB obligation:

	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2015</u>
Determination of Annual Required Contribution			
Normal Cost	\$ -	\$ -	\$ -
Amortization of Unfunded Actuarial Accrued Liability	<u>54,503</u>	<u>77,415</u>	<u>91,930</u>
Annual Required Contribution	<u>54,503</u>	<u>77,415</u>	<u>91,930</u>
Determination of Net OPEB Obligation			
Annual Required Contribution	54,503	77,415	91,930
Adjustment to Annual Required Contribution	<u>(6,039)</u>	<u>(6,977)</u>	<u>(8,793)</u>
Annual OPEB Cost	<u>48,464</u>	<u>70,438</u>	<u>83,137</u>
Contributions Made	<u>34,269</u>	<u>34,084</u>	<u>36,311</u>
Increase in Net OPEB Obligation	<u>14,195</u>	<u>36,354</u>	<u>46,826</u>
Net OPEB Obligation - beginning	<u>125,515</u>	<u>139,710</u>	<u>176,064</u>
Net OPEB Obligation - ending	<u>\$ 139,710</u>	<u>\$ 176,064</u>	<u>\$ 222,890</u>



The City's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Valuation Date</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2015	\$ 83,137	\$ 36,311	43.68%	\$ 222,890
December 31, 2014	70,438	34,084	48.39%	176,064
December 31, 2013	48,464	34,269	70.71%	139,710

The required Schedule of Funding Progress, immediately following the Notes is provided to present multi-year trend information regarding the change in plan assets relative to the actuarial accrued liability for benefits.

Note 8: Risk Management

Washington Cities Insurance Authority

The City of Mukilteo is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 179 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.



A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

Unemployment

Workers' compensation, RCW Title 51, requires the City to ensure payment of benefits to employees for job-related injuries and diseases. The City is a reimbursable employer with the Washington State Employment Security Department, therefore it is self-insured for unemployment. Claims are processed by the State and paid by the City. Below is an analysis of claims activity for the two years ended December 31, 2015;

	2014	2015
IBNR claims at beginning of year	\$ 1,800	\$ 7,488
Current year claims	47,930	28,487
Claim payments	(42,242)	(27,405)
IBNR claims at end of year	<u>\$ 7,488</u>	<u>\$ 8,571</u>

Dental and Vision

The City is self-insured for dental and vision benefits. The program is administered by the City, with claims being processed by an independent claims administrator. RCW 48.62 permits local governments to self-insure and Washington Administrative Code 200-100 regulates those programs. The City is required to maintain a reserve balance in an amount not less than eight weeks of program expenses. An additional contingency reserve established by the City Council is recommended but not required. Below is an analysis of claims activity for the two years ended December 31, 2015;

	2014	2015
IBNR claims at beginning of year	\$ -	\$ (2,885)
Current year claims	200,745	184,489
Claim payments	(203,630)	(167,097)
IBNR claims at end of year	<u>\$ (2,885)</u>	<u>\$ 14,507</u>

Note 9: Long-term Debt

The City may issue two types of general obligation bonds, limited tax general obligation bonds (LTGO) and unlimited tax general obligation bonds (UTGO) to provide funding for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

During 2009 the City authorized the issuance of a LTGO bond in the amount of \$12,585,000 for construction of a new community center. This debt has been issued for the general government and will be repaid with real estate excise taxes.

At December 31, 2015, the City had the following general obligation bonds outstanding:

Purpose	Issue Date	Maturity Date	Average Coupon Interest Rate %	Issuance Amount	Beginning Balance	Additions	Deletions	Ending Balance
2009 LTGO Bonds - Community Center	09/10/2009	12/01/2029	3.54%	\$12,585,000	\$10,175,000	\$ -	\$ 525,000	\$ 9,650,000
Total General Obligation Bonds				<u>\$12,585,000</u>	<u>\$10,175,000</u>	<u>\$ -</u>	<u>\$ 525,000</u>	<u>\$ 9,650,000</u>



The annual debt service requirements to maturity for these bonds are as follows:

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2016	\$ 545,000	\$ 363,962
2017	560,000	347,613
2018	580,000	328,963
2019	600,000	307,300
2020	620,000	287,800
2021-2025	3,455,000	1,078,300
2026-2029	3,290,000	335,400
Total	<u>\$ 9,650,000</u>	<u>\$ 3,049,338</u>

Note 10: Other Contractual Commitments

The City had the following significant contractual obligations on construction projects at December 31, 2015:

Contracting Entity	Project Name	Balance
Perteet, Inc	SR 526 Bicycle - Pedestrian Pathway	\$ 109,399
Razz Construction, Inc.	Naketa Beach Area Storm Pipe Extension	106,182
Cascade Design Collaborative	Active Transportation Plan	51,236
BergerABAM	Joint Parking Feasibility Study	47,500
Total Significant Contracts		<u>\$ 314,317</u>

Note 11: Changes in Long-Term Liabilities

Changes in long-term liabilities are as follows for the year ended December 31, 2015:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 10,175,000	\$ -	\$ 525,000	\$ 9,650,000	\$ 545,000
Unamortized bond premium	255,317	-	17,408	237,909	17,408
Capital lease	4,981		4,981	-	-
Compensated absences	921,679	1,400,905	1,340,581	982,003	61,940
Pension obligation	2,243,751	734,856	-	2,978,607	-
Other postemployment benefits	176,064	46,826	-	222,890	-
Total governmental activity - long-term liabilities	<u>13,776,792</u>	<u>2,182,587</u>	<u>1,887,970</u>	<u>14,071,409</u>	<u>624,348</u>
Business-type activities:					
Compensated absences	33,432	76,744	57,497	52,679	3,323
Pension obligation	89,369	80,497	-	169,866	-
Total business-type activities long-term liabilities	<u>122,801</u>	<u>157,241</u>	<u>57,497</u>	<u>222,545</u>	<u>3,323</u>
Total long-term liabilities	<u>\$ 13,899,593</u>	<u>\$ 2,339,628</u>	<u>\$ 1,945,467</u>	<u>\$ 14,293,954</u>	<u>\$ 627,671</u>

Note 12: Contingencies and Litigation

As of December 31, 2015, there were several damage claims and lawsuits pending against the City. It is the opinion of management and the City Attorney that the disposition of these claims is not presently expected to have a material adverse effect on the City's financial statements.

The City participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management believes that such disallowances, if any, will be immaterial.

Note 13: Interfund Activity

Interfund transfers

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services in return. Interfund transfers to support the operations of other funds are recorded as Transfers In or Transfers Out from the appropriate funds and are classified as Other Financing Sources or Uses. The City uses transfers to: move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers between funds as of December 31, 2015 are as follows:

<u>Fund</u>	<u>Transfers in</u>	<u>Transfers out</u>
General	\$ 436,413	\$ 428,804
Street	270,969	-
Recreation & Cultural Services	157,835	-
Emergency Medical Services	-	276,800
Government Obligation Bond	907,913	-
Capital Project Fund	-	907,913
Surface Water Management	-	159,613
Total	<u>\$ 1,773,130</u>	<u>\$ 1,773,130</u>

Interfund receivable and payables

Interfund receivable and payable activity between funds as of December 31, 2015 is as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 44,875	\$ -
Street	-	(44,875)
Total	<u>\$ 44,875</u>	<u>\$ (44,875)</u>

Interfund loans

Interfund loan activity between funds as of December 31, 2015 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Receivable:					
Equipment Replacement Fund	\$ 300,000	\$ -	\$ 30,000	\$ 270,000	\$ 30,000
Total receivable	<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 270,000</u>	<u>\$ 30,000</u>
Payable:					
Capital Project Fund	\$ 300,000	\$ -	\$ 30,000	\$ 270,000	\$ 30,000
Total payable	<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 270,000</u>	<u>\$ 30,000</u>

Amount of Loan	Purpose	From Fund	To Fund	Term
\$ 270,000	Japanese Gulch Land & Master Plan	Equipment Replacement	Capital Project	12/31/2024

Note 14: Joint Ventures

Snohomish County Emergency Radio System

The Snohomish County Emergency Radio System (SERS) was formed in 1999 via an interlocal agreement among the cities of Brier, Edmonds, Everett, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, Woodway, and Snohomish County to provide enhanced emergency communication services to Snohomish County. Snohomish County Fire District No. 1 joined after the original formation. SERS is responsible for design, development, financing, acquisition, operation, maintenance, and repair of the 800- megahertz emergency radio system. A 10-member Board of Directors is appointed by the cities and County to govern SERS. Each of the cities and the County are represented in the Board. Separate financial statements for the joint venture may be obtained from Snohomish County, Finance Department, 3000 Rockefeller Avenue, Everett, WA 98201.

SERS is reported as a governmental joint venture. The City of Mukilteo's share of the assets and equity as of December 31, 2015 is \$204,457. This value has been recorded in the government-wide statements as an investment in joint venture.

Southwest Snohomish County Public Safety Communications Agency

Snohomish County Public Safety Communications Agency (SNOCOM) is a public non-profit corporation formed in 1971 and incorporated in 2014. The purpose of SNOCOM is to provide public safety communications, records retention and usage and other board approved functions. SNOCOM was established via an interlocal agreement between the cities of Brier, Edmonds, Lynnwood, Mill Creek, Mountlake Terrace, and Mukilteo; the town of Woodway; and Snohomish County Fire District 1, all located within the county. Each member city and the Fire District provide voting members to the SNOCOM board of directors. The purpose of SNOCOM is to provide communications and dispatching for public health and safety services in Southwest Snohomish County. The cities and fire district are jointly responsible for the financing of SNOCOM. The interlocal agreement details clearly an allocation formula that determines each member's share in the joint venture and its reported equity interest in their respective financial statements. It incorporates each agency's population, assessed value and usage of 911 calls for service. Each member provides a voting representative to SNOCOM governing board of directors. The SNOCOM board has the authority to approve project expenditures and adopt SNOCOM budget. The City of Mountlake Terrace, which acts as the entity's fiscal agent under the Interlocal Agreement for Financial Services signed on November 25, 2009, prepares the unaudited financial information. Separate financial statements for the Snohomish



County Public Safety Communication Agency can be obtained from the City of Mountlake Terrace, Finance Department, and 6100 219th St SW, Suite 200, Mountlake Terrace, WA 98043.

SNOCOM is reported as a governmental joint venture. The city of Mukilteo's share of the assets and equity as of December 31, 2015 is \$474,758. This value has been recorded in the government-wide statements as an investment in joint venture.

Alliance for Housing Affordability

The purpose of Alliance for Housing Affordability (AHA) is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by providing expertise and information to member jurisdictions. In September 2013, the City of Mukilteo joined the cities of Edmonds, Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, and Snohomish; the Town of Woodway; and Snohomish County to establish AHA. The agreement was amended in May 2014 to add the City of Arlington and in June 2014 to add the City of Stanwood. Operating funding is provided by the member cities. AHA is governed by a Joint Board composed of an elected official from each member. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County. Fiscal agent duties are performed by the City of Mountlake Terrace.

Each member city is responsible for contributing operating revenues as determined from the AHA annual budget. Contributions from the member cities are based on each member's population. A grant from the Gates Foundation provided \$50,000 to assist with the first two years of organizational start-up. The City of Mukilteo's equity share as of December 31, 2015 is \$1,218, this is not considered material therefore the value has not been recorded in the financial statements.

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement provides for distribution of net assets among the members based on the percentage of the total annual contributions during the period of the Agreement paid by each member.

Budget monitoring information, as well as financial statements, can be obtained from Finance Director, City of Mountlake Terrace; 6100 219th Street SW, Mountlake Terrace WA 98043 or from the Alliance for Housing Affordability, 12625 4th Ave W, Suite 200, Everett, WA 98204.

Emergency Services Coordinating Agency

Emergency Service Coordinating Agency (ESCA) is a joint venture with ten member agencies that provide the majority of operating revenue. The method of allocating this revenue source is defined in the Interlocal Agreement for the Emergency Services Coordinating Agency, Section 7 Term and Dissolution states, "The value of the assets shall be then apportioned between the parties to the agreement in the same proportion as their financial participation in the budget year of dissolution".

On June 25, 2015 the Agency members passed resolution (2015-3) to dissolve ESCA during the 2015 fiscal year. The City of Mukilteo's equity share at dissolution on December 31, 2015 was \$38,945; this is recorded as an outstanding receivable in the financial statements.

Note 15: Other disclosures

Accounting and reporting changes

The City implemented GASB 68, Accounting and Financial Reporting for Pensions and GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. These statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions.

As a result of implementing this standard, the net effect of this reporting change in the fund statements are as follows for the year ended December 31, 2015;

Surface Water Management fund, decrease in net position of \$173,475
Internal Service funds, decrease in net position of \$27,240

As a result of implementing this standard the net effect of this reporting change in the government-wide statements are as follows for the year ended December 31, 2015;

Governmental, decrease in net position of \$1,654,742
Business-type activities, decrease in net position of \$173,475

Prior period adjustment

The financial statements have been restated to correct items classified as capital assets in prior years that do not meet the definition of a capital asset and errors in reported depreciation and accumulated depreciation.

The net effect of these misstatements in the fund statements are as follows for the year ended December 31, 2015;

Surface Water Management fund, increase in net position of \$323,109
Internal Service funds, decrease in net position of \$12,257

The net effects of these misstatements in the government-wide statements are as follows for the year ended December 31, 2015;

Governmental, decrease in net position of \$91,003
Business-type activities, increase in net position of \$323,109

Condition Assessment and Preservation of Infrastructure Eligible for Modified Accounting Approach

Streets:

The City of Mukilteo has taken a pragmatic approach with pavement management practices associated with public streets. The City performed a city wide pavement condition assessment in 2007 and 2014 and updated the Pavement Management Program (PMP). The Pavement Management Program provides a management tool to inventory street pavement, assess pavement condition, record historical surface improvements, forecast street budget requirements, and view impacts of funding on City-wide pavement condition over time.

The PMP is also a tool for analyzing pavement conditions and recommending rehabilitation strategies based in funding levels. A major component of the PMP is the Pavement Condition Index (PCI). The City's surface rehabilitation strategy is based on PCI scores and the corresponding condition category. Streets with PCI scores over 90 are considered to be "excellent" condition and would require no resurfacing treatment. Streets with PCI scores from 70 to 89 are considered "very good", however, may require cracks to be sealed and a single chip seal surface treatment. Streets with scores from 50 to 69 are considered "good" and may require patching, crack sealing, single chip seal or double chip seal surface treatment. Streets with PCI scores between 25 and 49 are considered "poor" and generally require a thick asphalt overlay. Street with scores below 25 are "very poor" and are in need of surface reconstruction.

A summary of the assessment completed assessments are shown in the table below:

Table 1
Overall Pavement Condition Assessment 2007 and 2014

Condition Rating	2007		2014	
	Miles	Percentage	Miles	Percentage
Excellent	22.6	38.2%	7.0	11.6%
Very Good	20.4	33.0%	43.8	71.8%
Good	13.1	21.2%	7.1	11.7%
Poor	4.8	7.6%	2.3	3.8%
Very Poor	0	0.0%	0.7	1.2%
Total	60.9		60.9	

The City's goal is to maintain the City wide pavement system at a condition level of very good or better. The City street system is broken down into four functional classifications: Arterial, Urban Minor Arterial, Collector, and Residential. There is a State highway (SR 525) which is considered an arterial street that bisects the City: this surface is maintained by WSDOT. The entire pavement system within the City of Mukilteo is composed of approximately 60.9 miles of paved surface and is divided into 406 pavement management segments. To assist in planning the surfacing needs, the City streets were grouped by functional class (Arterial, Urban Minor Arterial, Collector, and Residential). The table below shows the City's pavement mileage by functional classification:

**Table 2
Pavement Mileage by Functional Class**

Functional Classification	Centerline Miles
Arterial [excluding SR 525 and SR 526]	1.3
Urban Minor Arterial	4.9
Collector	6.3
Residential	48.5
Total	60.9

As a general rule, the City would perform rehabilitative surface treatments on streets rated down to a PCI of about 60 using chip seals. However, below that score asphalt replacement will generally be needed. Streets in the 60-80 range may have some cracks but generally, more than anything else, will be suffering from oxidation of the top surface. This leads to hairline crack formation which allows the entrance of water into and below the pavement, leading to a shortened pavement life. Chip sealing restores the oxidized surface and seals the pavement to prevent water entrance.

By chip sealing, the expensive street resurfacing cycle is broken where pavement is allowed to degrade to the point that it must be ground off and replaced with new asphalt. Based on the 2007 Pavement Management Program, the common scenario is that a newly paved street, after 7-10 years, will start developing cracks and be crack sealed. Then over the next 7-9 years it would further deteriorate and finally have to be replaced. Chip sealing replaces this cycle with pavement refreshment about 7-10 years into the life, a second chip seal around 14-16 years and a third one around 24-25 years. Sometime after 30 years the pavement can be ground and, possibly, the chip sealing process started over again.

Below is information on actual expenditures incurred in resurfacing and preserving the street system at or above the minimum acceptable condition level from 2010 to 2015.

Year	2015	2014	2013	2012	2011
Planned	\$ 350,000	\$ 317,000	\$ 510,420	\$ 200,000	\$ 433,000
Actual	412,831	16,200	495,130	333,419	354,860
Variance	\$ (62,831)	\$ 300,800	\$ 15,290	\$ (133,419)	\$ 78,140
	-17.95%	94.89%	3.00%	-66.71%	18.05%



Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
General Fund
For the Year Ended December 31, 2015

	General Fund			
	Original Budget	Final Budget	Actual	Variance
REVENUES				
Property taxes	\$ 4,892,495	\$ 4,892,495	\$ 4,880,801	\$ (11,694)
Sales taxes	3,123,145	3,123,145	2,728,416	(394,729)
Other taxes and assessments	2,933,657	2,933,657	2,812,040	(121,617)
Licenses and permits	1,399,100	1,399,100	1,290,506	(108,594)
Intergovernmental	371,550	552,050	424,419	(127,631)
Charges for services	623,800	642,423	332,043	(310,380)
Fines and forfeitures	182,125	182,125	211,458	29,333
Rents and leases	500,780	500,780	473,557	(27,223)
Interest earnings	21,150	21,150	77,479	56,329
Contributions and donations	1,000	3,760	16,435	12,675
Miscellaneous revenues	5,500	5,500	76,810	71,310
Total revenues	14,054,302	14,256,185	13,323,964	(932,221)
EXPENDITURES				
General government	3,539,833	3,699,345	3,982,666	283,321
Public safety	7,332,272	7,191,872	7,247,086	55,214
Transportation	-	32,810	5,425	(27,385)
Natural and economic environment	1,332,975	1,386,475	1,258,372	(128,103)
Culture and recreation	642,785	672,720	684,108	11,388
Debt service:				
Principal	-	-	-	-
Interest and other debt costs	-	-	-	-
Capital outlay:				
Capital outlay	163,933	163,933	180,324	16,391
Total expenditures	13,011,798	13,147,155	13,357,981	210,826
Excess (deficiency) of revenues over expenditures	1,042,504	1,109,030	(34,017)	(1,143,047)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	436,413	436,413
Transfers out	(1,282,206)	(1,207,506)	(428,804)	778,702
Total other financing sources (uses)	(1,282,206)	(1,207,506)	7,609	1,215,115
Net change in fund balances	(239,702)	(98,476)	(26,408)	72,068
Fund balances - beginning	5,433,701	5,433,701	5,433,701	-
Fund balances - ending	\$ 5,193,999	\$ 5,335,225	\$ 5,407,293	\$ 72,068

The Budget is prepared in accordance with Generally Accepted Accounting Principles (GAAP).

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Recreation & Cultural Services Fund
For the Year Ended December 31, 2015

	Recreation & Cultural Services			
	Original Budget	Final Budget	Actual	Variance
REVENUES				
Licenses and permits	\$ 600	\$ 600	\$ 900	\$ 300
Intergovernmental	-	-	30,000	30,000
Charges for services	156,450	156,450	122,120	(34,330)
Rents and leases	411,180	411,180	402,387	(8,793)
Interest earnings	800	800	-	(800)
Contributions and donations	5,500	5,500	2,850	(2,650)
Miscellaneous revenues	-	-	4,998	4,998
Total revenues	<u>574,530</u>	<u>574,530</u>	<u>563,255</u>	<u>(11,275)</u>
EXPENDITURES				
Culture and recreation	738,379	738,379	721,090	(17,289)
Total expenditures	<u>738,379</u>	<u>738,379</u>	<u>721,090</u>	<u>(17,289)</u>
Excess (deficiency) of revenues over expenditures	<u>(163,849)</u>	<u>(163,849)</u>	<u>(157,835)</u>	<u>6,014</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	152,449	152,449	157,835	5,386
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>152,449</u>	<u>152,449</u>	<u>157,835</u>	<u>5,386</u>
Net change in fund balances	<u>(11,400)</u>	<u>(11,400)</u>	<u>-</u>	<u>11,400</u>
Fund balances - beginning	-	-	-	-
Fund balances - ending	<u>\$ (11,400)</u>	<u>\$ (11,400)</u>	<u>\$ -</u>	<u>\$ 11,400</u>

The Budget is prepared in accordance with Generally Accepted Accounting Principles (GAAP).

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Emergency Medical Services Fund
For the Year Ended December 31, 2015

	Emergency Medical Services			
	Original Budget	Final Budget	Actual	Variance
REVENUES				
Property taxes	\$ 1,800,106	\$ 1,800,106	\$ 1,792,391	\$ (7,715)
Intergovernmental	-	-	-	-
Charges for services	161,430	346,426	500,031	153,605
Interest earnings	217	217	-	(217)
Miscellaneous revenues	-	-	264	264
Total revenues	1,961,753	2,146,749	2,292,686	145,937
EXPENDITURES				
Public safety	2,123,400	2,094,200	2,015,886	(78,314)
Capital outlay:				
Capital outlay	-	-	-	-
Total expenditures	2,123,400	2,094,200	2,015,886	(78,314)
Excess (deficiency) of revenues over expenditures	(161,647)	52,549	276,800	224,251
OTHER FINANCING SOURCES (USES)				
Transfers in	161,647	86,947	-	(86,947)
Transfers out	-	(178,350)	(276,800)	(98,450)
Total other financing sources (uses)	161,647	(91,403)	(276,800)	(185,397)
Net change in fund balances	-	(38,854)	-	38,854
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ (38,854)	\$ -	\$ 38,854

The Budget is prepared in accordance with Generally Accepted Accounting Principles (GAAP).

Schedule of Funding Progress of Other Post-Employment Benefits

Valuation Date	Actuarial value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As a Percentage of Covered Payroll
December 31, 2015	\$ -	\$1,022,113	\$1,022,113	0.00%	\$ -	0.00%
December 31, 2014	-	860,730	860,730	0.00%	-	0.00%
December 31, 2013	-	585,340	585,340	0.00%	-	0.00%



Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2015

PERS 1		PERS 2/3	
	<u>2015</u>		<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.033352%	Employer's proportion of the net pension liability (asset)	0.039290%
Employer's proportionate share of the net pension liability	\$ 1,744,620	Employer's proportionate share of the net pension liability	\$ 1,403,854
Employer's covered employee payroll	\$ 135,804	Employer's covered employee payroll	\$ 3,369,594
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	1284.66%	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	41.66%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	Plan fiduciary net position as a percentage of the total pension liability	89.20%
LEOFF 1		LEOFF 2	
	<u>2015</u>		<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.004645%	Employer's proportion of the net pension liability (asset)	0.176909%
Employer's proportionate share of the net pension liability	\$ (55,983)	Employer's proportionate share of the net pension liability	\$ (1,818,271)
		State's proportionate share of the net pension liability (asset) associated with the employer	\$ (171,448)
		Total	\$ (1,989,718)
Employer's covered employee payroll	\$ -	Employer's covered employee payroll	\$ 5,248,124
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	-	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	-34.65%
Plan fiduciary net position as a percentage of the total pension liability	127.36%	Plan fiduciary net position as a percentage of the total pension liability	111.67%



Schedule of Employer Contributions
As of December 31, 2015

PERS 1		PERS 2/3	
	<u>2015</u>		<u>2015</u>
Statutorily or contractually required contributions	\$ 158,036	Statutorily or contractually required contributions	\$ 209,660
Contributions in relation to the statutorily or contractually required contributions	(158,036)	Contributions in relation to the statutorily or contractually required contributions	(209,660)
Contribution deficiency (excess)	\$ -	Contribution deficiency (excess)	\$ -
Covered employer payroll	\$ 140,415	Covered employer payroll	\$ 3,454,025
Contributions as a percentage of covered employee payroll	112.55%	Contributions as a percentage of covered employee payroll	6.07%

LEOFF 1		LEOFF 2	
	<u>2015</u>		<u>2015</u>
Statutorily or contractually required contributions	\$ -	Statutorily or contractually required contributions	\$ 263,284
Contributions in relation to the statutorily or contractually required contributions	-	Contributions in relation to the statutorily or contractually required contributions	(263,284)
Contribution deficiency (excess)	\$ -	Contribution deficiency (excess)	\$ -
Covered employer payroll	\$ -	Covered employer payroll	\$ 5,367,588
Contributions as a percentage of covered employee payroll	-	Contributions as a percentage of covered employee payroll	4.91%

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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